

Why Washington State can afford high benefits to workers and moderate costs to employers

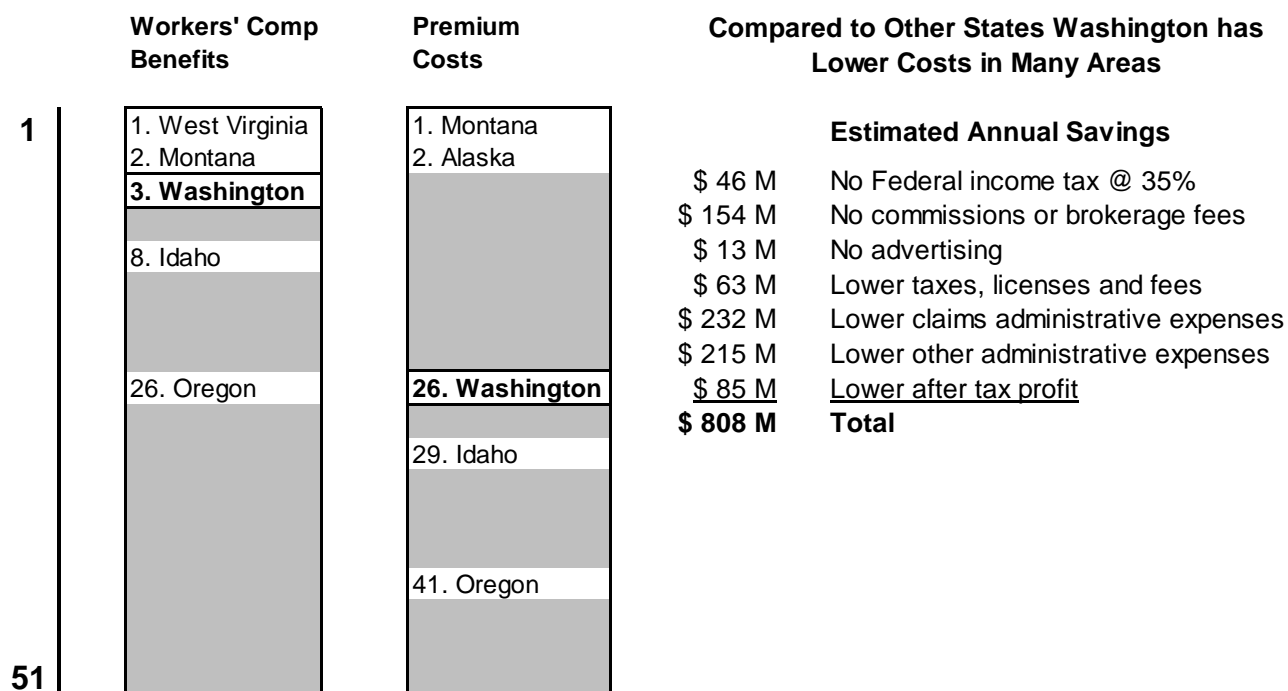
It is estimated that Washington State saves \$808 million a year compared to a typical U.S. workers' compensation insurer. These savings allow Washington State to afford high benefits while keeping costs moderate.

High benefits

In benefits paid to workers Washington ranks third in the nation (*Most recent ranking, National Academy of Social Insurance 2009*).

Moderate costs

In 2010, Washington ranked 26th in the nation in costs to employers and workers (*Oregon Dept. of Consumer & Business Services*)



How savings are estimated

Savings estimates are based on the years 2001 to 2010 as measured by the difference in profit and expenses between the insurance industry and the Washington State Fund. Industry data is from 2011 A.M. Best's *Aggregates and Averages*.

Process and Assumptions:

- 1) Assumes industry wrote business with the same annual incurred losses as the Washington State Fund 10 year average for Fiscal Years 2002-2011 (FY 2002 – 2011 average annual Washington State Fund losses incurred = \$1,699 M).
- 2) Uses the industry 2001-2010 10-year averages to obtain the expense ratios per losses incurred.
- 3) Compares this to the State Fund average expense ratios for fiscal years 2002 to 2011.
- 4) Assumes that the State Fund had no advertising costs, and premiums are set at the break-even rate.
- 5) Industry advertising and tax, license and fees based on 2010 only.

Difference in profit and expenses between insurance industry and Washington State Fund (in \$ Millions)

	U.S WC Industry (% of Loss)	WA State Fund (% of Loss)	Difference (% of Loss)	Difference applied to FY02-FY11 Average Losses
Profit				
Federal Income Tax @ 35%	2.7%	0.0%	2.7%	\$ 46 M
After Tax Profit	5.0%	0.0% ¹	5.0%	\$ 85 M
Administrative Expense				
Commissions & Brokerage	9.1%	0.0%	9.1%	\$ 154 M
Advertising	0.7%	0.0%	0.7%	\$ 13 M
Tax, License and Fees	6.5%	2.8% ²	3.7%	\$ 63 M
Claims Administration Expense	21%	7.4%	13.7%	\$ 232 M
Other Expenses ³	17.7%	5.1%	12.6%	\$ 215 M
TOTAL				\$ 808 M

1. Assumes L&I charges break-even rates, resulting in a profit of 0%. The actual FY 2002 – 2011 average profit for L&I was -7.7%.
2. Tax, License, and Fees include DOSH, Appeals Board, UW Research, and Specialty Compliance Services
3. Other Expenses include premium rating, collection, audit, retro, safety consultation, and loss control services.